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32600 Bobcat Drive
Mission | British Columbia
CANADA | V2V 5L1
E-Mail: peter@eurekainnovates.com
Ph.: (604) 287-5676
Fx.: (807) 345-3902

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United States Bankruptcy Court
San Jose, California

Pro Per— for Movant,
PIETRO PASQUALE ANTONIO SGROMO
(a/k/a PETER ANTHONY SGROMO)

UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA, SAN JOSE DIVISION

In re
IMPERIAL TOY LLC, a California
Limited Liability Company

Debtor.

PIETRO PASQUALE ANTONIO
SGROMO (a/k/a PETER
ANTHONY SGROMO),

Movant.

Case No.: 19-52335

Chapter 11

**MOVANT'S, OPPOSITION TO
DEBTOR'S ASSUMPTION AND
ASSIGNMENT OF TERMINATED
EXECUTORY LICENSE
AGREEMENTS;**

**MOTION TO APPROVE OR DENY
DEBTOR'S REJECTION OF NDA; and**

**MOTION FOR RELIEF FROM THE
AUTOMATIC STAY PURSUANT TO 11
U.S.C. § 362(D)(1) AND BANKRUPTCY
RULE 9014**

Date: December 16, 2019

Time: 1:30 p.m.

Judge: Honorable M. Elaine Hammond

United States Bankruptcy Court
280 South First Street, Rm. 3035
San Jose, CA 95113-3099

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I. INTRODUCTION

On November 26, 2019, debtor Imperial Toy LLC, filed its "CORRECTED SUPPLEMENT TO DEBTOR'S SALE MOTION AND NOTICE OF POTENTIAL ASSUMPTION AND ASSIGNMENT OF EXECUTORY CONTRACTS AND UNEXPIRED." The debtor has filed an automatic stay in two pending actions with movant, Pietro Pasquale Antonio Sgromo (a/k/a Peter Anthony Sgromo— hereinafter "Sgromo" or "Movant")— *In re: Pietro Pasquale Antonio Sgromo, Petitioner*, Case No.: 20-108, Federal Court of Appeals) and the pending arbitration— RE: *Sgromo, Pietro Pasquale A., et al. vs. Imperial Toy LLC* - JAMS Ref No. 1210035259. Debtor proposes it assumes and assigns certain terminated, non-executory License Agreements while rejecting the executory Non-Disclosure Agreement ("NDA"). Movant files this opposition to the assignment of the terminated contracts, and for this Honorable Court's approval of the debtor's proposed rejection of the NDA.

The movant files this instant motion for relief from the automatic stay pursuant to 11 U.S.C. § 362(d)(1) and Bankruptcy Rule 9014— "Contested Matters" as this proceeding does not mean, of course, that the Licensor is helpless and is at the mercy of the debtor indefinitely. On the contrary, the licensor may move forthwith to seek relief from the automatic stay pursuant to Sec. 362(a)(1); 11 U.S.C. § 362(a)(1) or may seek an order to compel the debtor to assume this executory contract on or before the time fixed by the Court and, of course, compel before the debtor is permitted to assume his contract to comply with the requirements of the Code, Sec. 365b(1)(A)(B)(C); 11 U.S.C. § 365b(1)(A)(B)(C), and cure all defaults as they relate to the standard of operation required by the License Agreement. *Matter of R. S. Pinellas Motel Part.*, 2 B.R. 113, 119 (Bankr. M.D. Fla. 1979)

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II. SUMMARY OF THE RELEVANT FACTS

Movant, is an Inventor, Marketing & Product Development Consultant, Management Consultant, part-time Professor of Marketing. Sgromo Decl.#1, ¶1. On or about September 25, 2008 Sgromo in his individual capacity entered into a Non-Disclosure Agreement ("NDA") with debtor. (Id. ¶2) and then proceeded to present numerous inventions (Ibid.). Under the NDA, on or about

1 March 2009, movant confidentially disclosed his Bubble Globe Light invention ("Blitz") to debtor
2 Id. ¶6; Exh.3. On March 23, 2009 Sgromo in his individual capacity filed patent "System and Method
3 For Generating a Three-Dimensional Image on a Pre-Printed Substrate" (the "243 Patent") granted
4 on June 30, 2015. Id. ¶7. On or about August 2009, Sgromo on behalf of his British Columbia
5 Corporation, Wide Eyes Marketing Ltd. ("WEM") entered into a Deal Memo to license various
6 inventions disclosed at the September 25, 2008 meeting but Blitz was excluded from the deal. Id. ¶8.
7 The Deal Memo expired on September 6, 2009 (Id. ¶9) and to further protect his intellectual property
8 rights, on October 6, 2009 movant in his personal capacity filed second patent—"Holographic
9 Bubble Generating System"—granted U.S. Patent No.: 8,654,422 (the "422 Patent"). Id. ¶10.

10 Despite expiration of the deal memo, the parties entered into a consulting agreement to keep
11 negotiations alive where parties "confirm[ed] [] the \$5K monthly advance...will continue through
12 March [2010] w[ould] start to see much larger Quarterly royalty statements" and "the \$5K advances
13 w[ould] be deducted from [movant's] Q1 royalty payment." Id., Exh.10 at ¶23. All monthly consulting
14 payments were received in full and therefore, on or about December 2009, movant agreed to enter a
15 license agreement on behalf of WEM, with several conditions— i) less-than all substantial rights to
16 patents— "If Licensee in its sole discretion considers it necessary or desirable to obtain patent
17 protection in the United States or any other country for the Product, Licensee shall notify
18 Licensors..." (Id., Exh.7, ¶2(a)); ii) "Licensee shall introduce the Licensed Products on or before
19 February, 2010 at the Toy Industry Association's Toy Fair in New York, NY. This [wa]s a
20 material provision of the Agreement" (Ibid., ¶12(f)) blatantly breached by the debtor just weeks
21 after signing. Id., ¶12. Given the material breach and automatic termination within weeks of signing,
22 "[a]ll rights [] granted to Licensee ...shall automatically revert to Licensors which shall be free to
23 exploit same without any further obligation to Licensee" (Ibid., 11(d) which he immediately did—
24 commercializing his inventions directly with retailers like Toys R Us ("TRU")). In fact, the movant
25 did not even have an opportunity to assign the patents to WEM in order for WEM to license to
26 debtor.

1 Debtor threatened legal action and parties resolved the dispute— terminating the 3D
2 Agreement and entering into a narrower integrated license agreement on or about May 2010 (the
3 "Cosmic Agreement"). Id. ¶13. Debtor attempted negotiate patent rights under the Cosmic
4 Agreement, but movant refused to assign any rights to the patents and demanded debtor acknowledge
5 there were no assignment rights on the Cosmic Agreement. Id., ¶13, Exh.9 at ¶2 at comments (Tiger
6 initialed acknowledgement that Licensed Grants only give the rights to license and "...Imperial is
7 excluded from protecting [Licensed Grants] by patent..."). But again, debtor materially breached the
8 agreement when it failed to market the inventions at Dallas Toy Fair in October 2010. Id. ¶14. In
9 fact, none of the items, including the Cosmic Bubbles that movant had placed at TRU were launched.
10 Ibid. Satisfied with the advance for non-performance the parties allowed the Cosmic Agreement to
11 terminate on its own. Id., ¶15.

12 Based on debtor organizational changes, on or about November 2010 and on invitation of
13 debtor, movant traveled from Toronto Canada to debtor's LA offices in an effort as debtor stated
14 "get the relationship back on track." Id., ¶16. Movant and his development team met with debtor and
15 leadership team to present new ideas and revisit inventions previously passed. Id., ¶¶16-17. Parties
16 agreed to reinstate the consulting arrangement, where Imperial acknowledged that "[i]n 2010 Mr.
17 Sgromo's consulting fees [royalties] amounted to just over \$103,000 and his expected [royalties] from
18 consulting [wa]s to at least match that each year over the next 3 years" (Ibid., Exh.11). And with that
19 Debtor successfully petitioned a Trade North America work permit ["TN Visa"] with the CBP and
20 Dept. Homeland Security for the movant. Id. ¶19. However, after months of development debtor
21 lacked ability to develop, market and distribute products. On or about July 2011, movant once again
22 travelled from Toronto, Canada to debtor's LA offices to meet Tiger to no productive result and
23 movant walked from the relationship. Id., ¶¶20-21. Nonetheless, debtor continued to report and pay
24 royalties throughout term of TN Contract until its expiry January 10, 2014. Movant declared said
25 royalties on his personal CA Income Tax Return and his own personal Ch. 13. Id., ¶¶21-22.

1 From 2014 to 2016, movant completed several inventing and consulting projects in the same
2 seasonal category (Id., Exh.1, ¶¶1-2) and in early 2017 movant looked to resurrect the various
3 inventions presented to debtor. However, to movant's shock and disbelief, debtor had been
4 commercializing the various inventions under the various agreements without paying royalties. Id.
5 ¶23. Litigation followed however, actions were dismissed for jurisdiction as debtor asserted CA
6 arbitration provision. Id., ¶24. On March 29, 2018, movant as an individual filed arbitration (Id., ¶
7 24) only to learn debtor took the immediate position the movant as an individual could not compel
8 arbitration as he was a third-party to the WEM Licenses. ¶25. Now debtor flips back to its earlier
9 position that movant was bound by the WEM Licenses because "Mr. Sgromo's signature on the
10 license agreements as an individual inventor was significant, as it confirmed his cooperation in the
11 required transfer of patent rights" from himself to WEM to Imperial. Id., ¶26. However, this new
12 position contradicts the purported patent assignment agreements where Imperial forged the movant's
13 signature to record a purported patent assignment from Sgromo to Imperial in consideration for
14 \$1.00 (Id., ¶27, Exh. 8) and not any purported automatic transfer of rights by WEM in the Licenses.
15 Id., ¶26. Suddenly after three years of litigation, Imperial produces royalty reports dating back to 2013
16 (Id., ¶28), which it failed to do under the Licenses. Id., Exh.s 7&9, ¶¶5 ("royalty payments due...
17 shall be calculated and paid quarterly, and shall be due thirty (30) calendar days after the end of each
18 calendar quarter for the previous quarter... accompanied by a written report, setting forth all
19 information necessary for the calculation of such payment."). This seems to be to support a
20 new position where Imperial believes it can argue automatic rights from the WEM Agreements. Id.,
21 ¶28 Notwithstanding, movant sent a notice of termination if royalties were not paid within 30 days
22 as required if the agreement was still valid. Id., ¶29. Despite promises that, it would "look into this
23 issue and get back to [movant]" and that it was "Imperial's intent is to capture all royalty-bearing
24 sales" it failed to cure the breach and the agreements automatically terminated on April 11, 2019 and
25 debtor had until October 11, 2019 to sell-off remaining inventory. Id., ¶¶30-31. Debtor continues to
26 sell the terminated licensed grants post-petition amounting to at least \$18 Million in sales and nine-

1 hundred-thousand dollars (\$900,000.00) in administrative expenses. Id., ¶31. Debtor has declared it
2 plans to reject the NDA (Id., ¶¶34-36) whilst proposing to assume the terminated and therefore non-
3 executory, WEM License Agreements (See DKT No.: 47).

4 III. LAW AND ARGUMENT

5 A. EXECUTORY CONTRACTS— GENERAL PRINCIPLES

6 [The] trustee, subject to the court's approval, may assume or reject any executory contract or
7 unexpired lease of the debtor. 11 U.S.C. § 365(a). With some limitations a debtor-in-possession has
8 the same rights as a trustee serving in chapter 11 cases. 11 U.S.C. § 1107(a). Before approval, the
9 debtor must satisfy a two-step analysis. The first step, referred to as the "material breach" step,
10 requires the court to determine whether the contract at issue is executory. Then, in the "business
11 judgment" step, the court must determine if allowing the debtor to assume or reject the contract
12 would be in the debtor's best business judgment. *In re Sandman Associates, L.L.C.*, 251 B.R. 473 (Bankr.
13 W.D. Va. 2000); *see also Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043, 1045
14 (4th Cir. 1985).

15 The Code does not define executory contract, but Congress has ratified the application of the
16 Countryman definition. *Gloria Mfg. Corp. v. International Ladies' Garment Workers' Union*, 734 F.2d 1020,
17 1022 (4th Cir. 1984); *Lubrizol*, 765 F.2d at 1043 (confirming the Fourth Circuit has adopted the
18 Countryman definition of executory contract). Countryman defines an executory contract as "[a]
19 contract under which the obligations of both the bankrupt and the other party to the contract are so
20 far unperformed that the failure of either to complete the performance would constitute a material
21 breach excusing the performance of the other. *Gloria Mfg. Corp.*, 734 F.2d at 1022 (quoting
22 Countryman, "Executory Contracts in Bankruptcy: Part I," 57 Minn. L. Rev. 439, 460 (1973)).

23 Assets such as real property or chattels owned by the debtor automatically become part of
24 the bankruptcy estate. Sales of assets completed prior to bankruptcy are outside of the bankruptcy
25 case, and beyond the reach of the bankruptcy court, unless the transaction amounts to a fraudulent
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1 transfer. U.S.C. § 548 (2000). See generally David G. Epstein, Steve H. Nickles & James J. White,
2 Bankruptcy supra note 55, § 6-47 (1993).

3 Most IP licensees fall into a middle ground labeled "executory contracts" that do not
4 automatically enter the bankruptcy estate. Depending on the performance provisions of such
5 contracts, they may constitute net assets or net liabilities of the estate. See generally Jesse M. Fried,
6 *Executory Contracts and Performance Decisions in Bankruptcy*, 46 DUKE L.J. 517 (1996). However, where
7 an executory contract has been terminated in accordance with its terms prior to bankruptcy, section
8 365(e)(1) does not authorize the bankruptcy court to reach beyond the veil of the petition to reinstate
9 the contract. *In re Wills Motors, Inc.*, 133 B.R. 297, 300-1 (Bankr. S.D.N.Y. 1991); *see also In re Wills*
10 *Motors, Inc.*, 133 B.R. 297 (Bankr.S.D.N Y 1991); *In re Seven Stars Restaurant Inc.*, 122 B.R. 213
11 (Bankr.S.D.N.Y. 1990); *In re Commodity Merchants Inc.*, 538 F.2d 1260 (7th Cir. 1976). Nor has Congress
12 the ability, in the absence of bankruptcy or an effect on interstate commerce, to legislate such a
13 matter, which is purely a state law concern. *Comp III, Inc. v. Computerland Corp. (In re Comp III, Inc.)*, 136
14 B.R. 636, 639 (Bankr. S.D.N.Y. 1992). Here, California law governs the agreements.

15 In making a decision on whether the rejection of a contract is in the best business judgment
16 of a debtor, the court "acts in its fact-finding role." *In re Sandman*, 251 B.R. at 481.

17 **B. THE WEM LICENSES ARE NON-EXECUTORY AND CANNOT BE REINSTATED**

18 As a threshold matter, the movant and debtor disagree as the validity and enforceability of
19 the WEM 3D License (See SgromoDecl., Exh.7) and the WEM Cosmic License Agreement (Id.,
20 Exh.9)—with the debtor asserting both are valid and enforceable. Further compounding the dispute,
21 debtor takes position Sgromo was individually bound by the Licenses and as a matter of law, Sgromo
22 assigned ownership of the '243 & '422 Patents to Imperial vis-à-vis his signature in his corporate
23 capacity as WEM's sole shareholder. The evidence will prove the 3D Agreement was integrated into
24 the Cosmic Agreement which was automatically terminated for non-performance and expressly states
25 there were no patent assignment rights.

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1 commerce, to legislate such a matter, which is purely a state law concern. *Comp III, Inc. v. Computerland*
2 *Corp. (In re Comp III, Inc.)*, 136 B.R. 636, 639 (Bankr. S.D.N.Y. 1992).

3 Here, debtor materially breached the 3D Agreement (SgromoDecl., ¶12) and "...all rights
4 granted to Licensee ... shall automatically revert to Licensor which shall be free to exploit same
5 without any further obligation to Licensee" (Id., Exh.7, ¶11(d)) but Imperial threatened legal action
6 when debtor exercised his right (Id., ¶13) so the parties settled the dispute by entering the integrated
7 Cosmic Agreement (Id., ¶14) only to have debtor repeat the material breaches and with no
8 performance whatsoever and the agreement terminated on its own (Id., ¶15). And once again, "...all
9 rights granted to Licensee ... shall automatically revert to Licensor which shall be free to exploit
10 same without any further obligation to Licensee" (Id., Exh.9, ¶11(d)).

11 California recognizes "an implied covenant of good faith and fair dealing in every contract
12 that neither party will do anything which will injure the right of the other to receive the benefits of
13 the agreement." *Foley v. Interactive Data Corp.*, 47 Cal.3d 654, 684, 765 P.2d 373, 390 (1988). Even when
14 given a final opportunity to cure the breach, when notice was given on March 11, 2019 (SgromoDecl.
15 ¶21) and would "look into this issue and get back to [debtor]" (Id., Exh. 21) and "Imperial's intent
16 is to capture all royalty-bearing sales" (Ibid) debtor failed to cure the breach within the 30-day period
17 (Id., ¶22) and debtor's non-performance provides an excuse for movant's non-performance. *Loral*
18 *Corp. v. Moyes*, 174 Cal. App. 3d 268, 280, 219 Cal. Rptr. 836, 844 (Ct. App. 1985).. Debtor had
19 "...the right to dispose of any Products which are on hand or in-process for a period of one
20 hundred eighty (180) days following such termination. Any Products sold or distributed by Licensee
21 during the sell-off period shall be subject to the royalty set forth in Section 3 hereof was not breached"
22 (Id., ¶¶11) which expired on October 11, 2019 and section 365(e)(1) does not authorize the
23 bankruptcy court to reach beyond the veil of the petition to reinstate the contract. *In re Wills Motors,*
24 *Inc.*, 133 B.R. 297, 300-1 (Bankr. S.D.N.Y. 1991).

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1 F.3d 1090, 1093 (Fed. Cir. 1998). Common corporate structure does not overcome the requirement
2 that even between a parent and a subsidiary, an appropriate written assignment is necessary to transfer
3 legal title from one to the other. Without the transfer of legal title of the patents, Sgromo not WEM
4 has standing to bring an infringement action. *Lans v. Digital Equipment Corp*, 252 F.3d 1320, 1328 (Fed.
5 Cir. 2001) (holding that a plaintiff-inventor, who assigned his patent to a corporation in which he was
6 the sole shareholder and managing director prior to filing the action, lacked standing to sue).

7 Even if the 3D Agreement was still in effect (which it is not) "Licensee shall notify Licensor
8 of that decision" (to obtain patent protection) and "Licensor shall cooperate as reasonably requested
9 by Licensee in obtaining patent protection requested by Licensee." The disputed Patent
10 Assignment Agreement ("PPA") debtor filed with the PTO does not arise out of the purported
11 automatic rights Imperial argues now as a matter of law under the 3D Agreement. The purported
12 disputed PPA was not incorporated into the License Agreement and could not add to or vary WEM's
13 obligations under the Contract." *Paramount Auto Body Shop, Inc. v. Mitchell Int'l, Inc.*, D058664, at *32
14 (Cal. Ct. App. Jun. 5, 2012). Generally, "[s]pecific performance cannot be granted unless the terms
15 of the contract are sufficiently definite for the court to know what to enforce." (13 Witkin, Summary
16 of Cal. Law (10th ed. 2005) Equity, § 42, p. 334; Civ. Code, § 3390, subd. (5).) For this reason, a
17 contract that "leaves an essential element for future agreement of the parties" is ordinarily
18 unenforceable. *Okun v. Morton* (1988) 203 Cal.App.3d 805, 817.

19 As per the well settled case law, this does not grant Respondents any automatic rights— there
20 was no future obligations regarding patent assignments. Simply because the NDA predates Cosmic
21 Agreement does not mean that it was superseded by that contract's integration clause. Each
22 agreement was with different parties and contained their individual "entire agreement" clause
23 (*Williams v. Atria Las Posas*, 2d Civil No. B282513, at *4-5 (Cal. Ct. App. Jun. 27, 2018)) and the two
24 disputed Agreements name different parties. "The only safe rule is to confine the right to recover to
25 those who enter into the contract: if we go one step beyond that, there is no reason why we should
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1 not go fifty." This introduced the so-called "privity rule" to the United States." *National Savings Bank*
2 *of D.C. v. Ward*, 100U.S. 195 (1879).

3 **C. ALL PURPORTED PATENT ASSIGNMENTS ARE VOID**

4 When Sgromo as an individual filed the '243 and '422 patents prior to signing the License
5 Agreement in his corporate capacity as the sole shareholder of WEM, he "g[a]ve notice to the world
6 that [his] particular idea[s] [were] owned, and the owner is accorded a monopoly on the use of the
7 idea[s]. *Waterman v. Mackenzie*, 138 U.S. 252, 260-261, 11 S.Ct. 334, 337, 34 L.Ed. 923 (1891). "The
8 monopoly thus granted is one entire thing and cannot be divided into parts," except as authorized by
9 law. Id. at 335. The Federal Patent Act requires that all assignments of patent interest be in writing.
10 35 U.S.C. § 261 (2006). This requirement dates back to the 1881 Supreme Court decision in *Ager v.*
11 *Murray*, which held that a debtor's interest in a patent that would be used to satisfy a judgment against
12 him was property, "assignable by him, and . . . [could not] be taken on execution at law." 105 U.S.
13 126, 131-32, 26 L.Ed. 942 (1881). If the bankruptcy courts were to expand the exception to include
14 the purported parol evidence proffered by the defendants to verbal licenses, the exception would
15 swallow the rule. Debtor would be free to engage in revisionist history, circumventing the certainty
16 provided by the writing requirement of section 261 by claiming to be patentee by virtue of a verbal
17 licensing arrangement. *Enzo APA & Son, Inc. v. Geapag A.G.*, 134 F.3d 1090, 1093 (Fed. Cir. 1998).

18 It is established there were no automatic rights under the WEM Agreements even if still
19 enforceable (which they are not) as "California law requires amendments or modifications to written
20 contracts to be in writing. *Grolsche Bierbrouwerij Nederland v. Dovebid, Inc.*, Case No. 11-763 SC, at *10
21 (N.D. Cal. Aug. 2, 2011— citing Cal. Civ. Code § 1689)." see also *Banner Entertainment, Inc. v. Superior*
22 *Court* (1998) 62 Cal.App.4TH 348, 359-362 ("...when the parties to a proposed contract have
23 themselves fixed the manner in which their assent is to be manifested, an assent thereto, in any other
24 or different mode, will not be presumed..... even though the parties have orally agreed upon some
25 of the terms, or have taken some action related to the contract."). "the agreement would be
26 unenforceable under the statute of frauds (Civ. Code, § 1624) since it could not have been performed

1 within a year of its making." *Timed Out, LLC v. Bra Smyth of Cal., Inc.*, H039601, at *3 (Cal. Ct. App.
2 Dec. 21, 2015) The courts have consistently ruled that a contract that cannot be performed in one
3 year cannot be taken out of the statute of frauds. *Gilliam v. Kouchochos*, 161 Tex. 299, 302, 340 S.W.2d
4 27, 29 (1960). Here, "[t]he contemplated performance would occupy more than a year." *Sullivan v.*
5 *Leor Energy, LLC*, 600 F.3d 542, 546 (5th Cir. 2010) as the NDA was signed in 2008 and the purported
6 transfer occurred more than two years later.

7 An agreement to modify a contract that is subject to the statute of frauds is also subject to
8 the statute of frauds. (Civ. Code, § 1698, subd. (a) ["A contract in writing may be modified by a
9 contract in writing."]; *Collins v. Marvel Land Co.* (1970) 13 Cal.App.3d 34, 43 [91 Cal.Rptr. 291].) A
10 modification of a contract is a change in the obligations of a party by a subsequent mutual agreement
11 of the parties. (1 Witkin, Summary of Cal. Law, supra, Contracts, § 964, p. 1055.) Thus, "the
12 agreement would be unenforceable under the statute of frauds (Civ. Code, § 1624) since it could not
13 have been performed within a year of its making." *Timed Out, LLC v. Bra Smyth of Cal., Inc.*, H039601,
14 at *3 (Cal. Ct. App. Dec. 21, 2015)

15 Imperial had assigned Sgromo's '243 and '422 Patents to themselves— forging Sgromo's
16 signature, unwitnessed, outside the statute of frauds and then assigning the patents to various
17 creditors to finance its other product lines that in no way relate to the '243 and '422 Patents. The
18 NDA however, is between "Imperial and Peter A. Sgromo ("Inventor")" and "contains the entire
19 agreement between the parties and any modification must be in writing signed by both parties." See
20 Exh. 2 at ¶7. The NDA governs the dispute over the '243 and '422 Patents because it was never
21 modified "in writing signed by both parties." Ibid. Therefore, the purported patent transfer
22 assignments between Sgromo and Imperial (See Exh.8) are parol evidence that cannot be added to
23 modify the terms of the unambiguous NDA and are barred. Cal. Civ. Code § 1856; see also, *Masterson*
24 *v. Sine*, (1968) 68 Cal. 2d 222, 225. Imperial breached its promise under the NDA, when it assigned
25 the patent to monopolize and "commercially exploit the ['243 and '422 Patent] items" by filing the
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1 "information regarding th[ese] designs" with the PTO, "without the consent of the Inventor" which
2 it drafted and identifies as Sgromo individually as the "Inventor" not WEM [Id.].

3 **D. THE TN CONSULTING CONTRACT— THE PARTIES' FINAL EXPRESSION**

4 "A contract may validly include the provisions of a document not physically a part of the
5 basic contract. . . . 'It is, of course, the law that the parties may incorporate by reference into their
6 contract the terms of some other document. [Citations.] But each case must turn on its facts.' "
7 *Williams Constr. Co. v. Standard-Pacific Corp.* (1967) 254 Cal.App.2d 442, 454.) For the terms of another
8 document to be incorporated into the document executed by the parties the reference must be clear
9 and unequivocal, the reference must be called to the attention of the other party and he must consent
10 thereto, and the terms of the incorporated document must be known or easily available to the
11 contracting parties. *Scott's V.F. Exch. v. Growers Refrig. Co.*, 81 Cal. App. 2d 437, 447 (Cal. Ct. App.
12 1947); *see also, Weddington Productions, Inc. v. Flick*, 60 Cal. App. 4th 793, 814 (Cal. Ct. App. 1998).

13 When debtor materially breached the integrated Cosmic Agreement, the agreement
14 automatically terminated and WEM was adequately compensated vis-à-vis the minimum guarantee.
15 See SgromoDecl., ¶¶14-15. On or about November 2010, weeks after the material breach (Ibid.)
16 movant traveled to debtor's offices to resurrect the business relationship. Id., ¶¶16-17. Specifically,
17 the parties 'picked-up' on many of the inventions in discussion up to the signing of the Cosmic
18 Agreement. Id., Exh.10. The parties agreed to continue with the consulting arrangement (Ibid., ¶¶23-
19 24) acknowledging the parties were bound by the NDA. Id., ¶18. However, because movant had
20 returned to his native Canada, debtor needed to petition a TN Visa (that included the terms of the
21 Consulting Contract) with Dept. of Homeland Security | U.S. Customs and Border Patrol which it
22 did. Id., ¶19. The TN Consulting Contract and combined with the NDA "contain[ed] the entire
23 agreement between the parties" as it was "in writing signed by both parties." Id., Ex. 2, ¶7. It is well
24 settled that California courts find an agreement such as this complete despite the omission of an
25 integration clause. *See, e.g., Software Design & Application, Ltd. v. Price Waterhouse*, 49 Cal.App.4th 464,

1 470, 57 Cal.Rptr.2d 36 (1996) ("although there is no 'integration' clause...they are nonetheless
2 complete.").

3 The debtor warranted to immigration authorities that it had been paying consulting fees in
4 the form of royalties "[i]n 2010 ...amounted to just over \$103,000..." and is "expected...to at least
5 match that each year over the next three years." Exh.11, ¶5. Sgromo reported these royalties for the
6 term of the consulting contract on his individual CA State Income Tax (as he moved back to CA
7 October 2011) and on his own personal Ch. 13. Id., Exh.12. The Agreement terminated on its own
8 on January 10, 2014, because debtor "[n]either appl[ied] to extend his status or notify the Immigration
9 Service that he [wa]s no longer in [their] employ" prior to the automatic termination date. Exh. 11,
10 ¶6. The consulting arrangement where debtor accepted royalties for his patents and intellectual
11 property did not provide an automatic assignment of those rights. The debtor's position the WEM
12 agreements are enforceable and govern the patent assignemtns is misplaced because "there cannot
13 be a valid, express [consulting] contract and an implied [License] contract, each embracing the same
14 subject matter, existing at the same time." (66 Am. Jur. 2d, Restitution and Implied Contracts, § 6,
15 pp. 948-949; cf. *Barrere v. Soms* (1896) 113 Cal. 97 [45 P. 177, 572].

16 Any language used by the owner of the patent or any conduct on his part exhibited to another
17 may properly infer that the owner consents to his use of the patent. *De Forest Radio Tel. Co. v. United*
18 *States*, 273 U.S. 236, 241, 47 S.Ct. 366, 367, 71 L.Ed. 625 (1927). When warranted by such a course
19 of conduct, the law implies a license. *Devices for Medicine, Inc. v. Boehl*, 822 F.2d 1062, 1068, 3 USPQ2d
20 1288, 1293-94 (Fed. Cir.1987); *United States v. Univis Lens Co.*, 316 U.S. 241, 250-51, 62 S.Ct. 1088,
21 1093, 86 L.Ed. 1408, 53 USPQ 404, 408 (1942); *Ansul Co. v. Uniroyal, Inc.*, 448 F.2d 872, 880, 169
22 USPQ 759, 763-64 (2d Cir.1971), cert. denied, 404 U.S. 1018, 92 S.Ct. 680, 30 L.Ed.2d 666. Whether
23 express or implied, a license is a contract "governed by ordinary principles of state contract law."
24 *Power Lift, Inc. v. Weatherford Nipple-Up Sys., Inc.*, 871 F.2d 1082, 1085, 10 USPQ2d 1464, 1466
25 (Fed.Cir.1989).

1 However, this implied license does not offend the protection afforded patent and trademark
2 rights by federal law. *Power Lift*, 871 F.2d at 1085; *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 703,
3 24 USPQ2d 1173, 1176 (Fed. Cir.1992). *Wilder v. Kent*, 15 F. 217, 220 (C.C.W.D.Pa.1883). A state
4 cannot validly enact a law that conflicts with the patent statute or obstructs its underlying legislative
5 intent. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, U.S. 109 S.Ct. 971, 979, 103 L.Ed.2d 118, 9 USPQ2d
6 1847, 1852 (1989). "[T]he unrestricted sale [of the patent] does not involve the transfer of any interest
7 in the patent.]" Under this implied license, the movant patent holder receives a reward for inventive
8 work in the first sale of the patented product. *Univis*, 316 U.S. at 251, 62 S.Ct. at 1093. At most,
9 movant's conduct and language used in the negotiation of the TN Consulting Contract implied a
10 license and no more.

11 **E. THE NDA IS AN EXECUTORY CONTRACT**

12 Rejection of an executory contract is "[o]ne of the most powerful tools in the chapter 11
13 debtor-in-possession's bankruptcy tool kit." *In re Debon*, 352 B.R. 546, 558 (Bankr. D. Mass. 2006).
14 "Rejection does not constitute a termination of the contract. . . . It does not cause a contract to
15 magically vanish. Rather, the Debtor's rejection of the NDA (See SgromoDecl., ¶¶34-36) constitutes
16 a breach as of the petition date." *In re The Ground Round, Inc.*, 335 B.R. 253, 261 (1st Cir. B.A.P. 2005),
17 aff'd 482 F.3d 15 (1st Cir. 2007). See 11 U.S.C. § 502(g). The NDA acknowledges the likelihood that
18 non-public information will be exchanged between "Peter A. Sgromo" in his individual capacity as
19 the "Inventor" and Imperial Toy LLC. Id., ¶2. Once rejection occurred, however, Imperial or Ja-Ru's
20 right to the continued use of the exclusive license ended. *Ground Round, Inc.*, 482 F.3d at 18. Upon
21 rejection, Imperial or Ja-Ru can no longer sell inventory using movant's intellectual property because
22 "in consideration to view the concept and discuss with Inventor [Sgromo], Imperial agree[d] that it
23 will not commercially exploit th[e] item[s]...without the consent of the inventor." Id., Exh.2, ¶3.
24 There is no expiry on the NDA.

1 The movant's intellectual property accounts for \$18 Million in retail sales per year and an
2 outstanding royalty of at least \$450,000.00 per year (Id., ¶¶32-33). It is difficult to imagine how
3 Imperial plans to successfully reorganize under a Ch. 11 without the movant's intellectual property
4 rights. Notwithstanding, the debtor cannot assume a contract, however, without first meeting the
5 statutory preconditions of curing outstanding defaults under the contract (or providing "adequate
6 assurance" that it will do so). 11 U.S.C. § 365(b)(1)(B) (2000). The debtor must also make whole any
7 third parties who suffered losses as a result of the defaults. Ibid. While the WEM Licenses are
8 terminated and non-executory there remains an outstanding liability on debtor who promised to
9 indemnify Sgromo as a third party to the contract from injury as a result of modifying product. Id.,
10 Exh.s7&9, ¶¶8 ("excluding actions founded on intellectual property rights unless the intellectual
11 property rights infringement is a result of a modification or change to the Product created
12 by Licensee.") The debtor modified the licensed rights to the '422 patent (Exh. 6) by simply removing
13 the stereoscopic glasses from the independent claim (Ibid., p.36, Claim #1) leaving the Bubble Globe
14 Light invention which was confidentially disclosed (Exh. 3) and protected by the NDA .

15 The debtor must make a showing of how rejection of executory NDA will benefit the estate.
16 *In re Stable Mews Associates, Inc.*, 41 B.R. 594, 596 (Bankr. S.D.N.Y. 1984). "The primary element of
17 such a showing is the extent to which a rejection will benefit the general unsecured creditors of the
18 estate." Id. When applying the business judgment rule, "[there is] no room for speculation as to which
19 business choice will yield the greater return;" the analysis is complete "once it has been shown that
20 the [debtor's] choice will benefit the estate and unsecured creditors." *In re Maison Grande Condominium*
21 *Ass'n, Inc.*, 425 B.R. 684, 691 (S.D. Fla. 2010).

22 If the NDA were rejected, movant's rights to enforce it through the injunction that is stayed
23 (*In re: Pietro Pasquale Antonio Sgromo, Petitioner*, Case No.: 20-108, Federal Court of Appeals)—pursuant
24 to 11 U.S.C. § 362, must be lifted because the relief sought there cannot be reduced to money
25 damages. A right to an equitable remedy for breach of performance is a claim if the breach gives rise
26 to a right to payment. 11 U.S.C. § 101(5)(B). California law is clear that an injunction is the proper
27

1 affirming issuance of preliminary injunction where "trade secret information has potential economic
2 value because [movant] went to great expense" to create the inventions and took reasonable steps to
3 keep the information secret by requiring Imperial sign a nondisclosure agreement. *Readylink Healthcare*
4 *v. Cotton*, 126 Cal.App.4th 1006 (Cal. Ct. App. 2005); *see also In re Kmart Corp.*, 297 B.R. 525 (N.D. Ill.
5 2003) ("[w]hen the payment of money damages is permissible in lieu of an equitable remedy, the right
6 to payment is available and there is a claim to be made"); *In re The Ground Round, Inc.*, 335 B.R. 253
7 (B.A.P. 1st Cir. 2005) "[i]f money damages are not permissible, only equitable relief is available and
8 remedies for the breach may be pursued outside of the bankruptcy proceedings.")

9 But CA law is also clear that the amount the breaching party would have paid to license the
10 technology could be used to measure the damages resulting from breach of a non-disclosure
11 agreement (NDA). *Grail Semiconductor, Inc. v. Mitsubishi Electric & Electronics USA, Inc.*, 225 Cal.App.4th
12 786 (Cal. Ct. App. 2014) Here that amount is easily determined by the sales of the infringing products
13 as reported by Nielsen— (\$18 Million at retail; \$9 Million at cost; which amounts to \$450,000.00 in
14 royalties as previously agreed and customary in the industry— SgromoDecl., ¶32). The court must
15 determine if it is in the best interest of the estate to reject the NDA and in turn, an injunction
16 preventing the \$18MM in sales but saving the estate \$450,000.00 in royalties.

17 IV. CONCLUSION

18 If the court approves the rejection of the NDA then pursuant to 11 U.S.C. § 362, the
19 automatic stay must be lifted because the relief sought there cannot be reduced to money damages.
20 The movant should then be allowed to continue with his noncore claims including injunctive relief
21 in, *In re: Pietro Pasquale Antonio Sgromo, Petitioner*, Case No.: 20-108, Federal Court of Appeals; and RE:
22 *Sgromo, Pietro Pasquale A., et al. vs. Imperial Toy LLC* - JAMS Ref No. 1210035259.

23 RESPECTFULLY SUBMITTED THIS 10TH DAY OF DECEMBER, 2019

24 
25

26 PPASGROMO for Movant

Service Addresses for Assignment and Assumption Objections

Proposed Counsel to the Debtor

Sheppard Mullin Richter & Hampton LLP
4 Embarcadero Center, 17th Floor
San Francisco, CA 94111
Attn: Ori Katz, Michael Lauter, Jacqueline
Luther, and Shadi Farzan
Email: okatz@sheppardmullin.com
mlauter@sheppardmullin.com
jluther@sheppardmullin.com
sfarzan@sheppardmullin.com

***Counsel to The CIT Group/Commercial
Services, Inc. and CIT Finance, LLC***

Valerie Bantner Peo, Esq.
Buchalter, A Professional Corporation 55
Second Street, 17th Floor
San Francisco, California 94105-3493
vbantnerpeo@buchalter.com

***Counsel to Great Rock Capital Partners
Management, LLC***

Jennifer C. Hagle
Anna Gumport
SIDLEY AUSTIN LLP
555 West Fifth Street, Suite 4000
Los Angeles, California 90013-1010
Email: jhagle@sidley.com
agumport@sidley.com

U.S. Trustee

Office of the United States Trustee
Attn: Jared A. Day
300 Booth Street, Rm 3009
Reno, NV 89509
Email: iared.a.dav@usdoj.gov

Counsel to Ja-Ru, Inc.

Tobias S. Keller, Esq.
Jane Kim, Esq.
Thomas B. Rupp, Esq.
Keller & Benvenuti LLP
650 California Street, Suite 1900
San Francisco, CA 94108
Email: tkeller@kellerbenvenuti.com;
jkim@kellerbenvenuti.com;
trupp@kellerbenvenuti.com

***Counsel to The CIT Group/Commercial
Services, Inc. and CIT Finance, LLC***

Hahn & Hessen LLP
488 Madison Avenue
New York, NY 10022
Attn: Joshua Divack
Email: JDivack@hahn Hessen.com

Counsel to the Hirsch Parties

Brutzkus Gubner
Attn: Susan K. Seflin
21650 Oxnard Street, Suite 500
Woodland Hills, CA 91367
Email: sseflin@bg.law

***Counsel to Official Committee of
Unsecured Creditors***

John Fiero
Pachulski Stang Ziehl & Jones LLP
Tel: 415.263.7000 | Fax: 415.263.7010
jfiero@pszjlaw.com

Jason Rosell
Pachulski Stang Ziehl & Jones LLP
Direct: 415.217.5118
Mobile: 917.747.9986
jrosell@pszjlaw.com